Developed Economy Investment Promotion Agencies and Emerging Market Foreign Direct Investment: The Case of Chinese FDI in Canada

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Abstract:

In light of the perceived benefits derived from inward FDI, many developed economies have systematically established investment promotion agencies (IPAs) to attract foreign investment. While IPAs in the past have been created by a wide variety of countries and regions, their target economies have overwhelmingly been in developed markets. The rise of emerging market MNEs is significantly changing this picture. We analyse the impact of IPAs on attracting emerging market FDI to developed economies by looking at the example of Chinese FDI into Canada. We find strong statistical evidence that the presence of Canadian provincial-level IPAs located in China increases the likelihood of Chinese firms locating in that Canadian province. Focusing on the role of IPAs in lowering liabilities of foreignness, we explore how differences in host and home country contexts may explain our findings.

Key words: Investment promotion agency; emerging market; psychic distance; China; Canada; FDI

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1. Introduction

Attracting foreign direct investment (FDI) has become an increasingly important objective for developed economies. This is because inward FDI may have numerous benefits for host economies, including such things as access to capital, productivity spill-overs, innovation spill-overs and employment creation (Bobonis & Shatz, 2007). The benefits of FDI for developed economies, therefore, constitute a potentially significant source of economic growth. Alfaro, Chanda, Kalemli-Ozean, & Sayek (2006), for instance, found, 'increases in the share of FDI or the relative productivity of the foreign firm leads to higher additional growth in financially developed economies' (p 1).

In light of the perceived benefits derived from generating FDI, many developed economies have systematically implemented policies which target foreign MNEs. Chief among these policies is the establishment of investment promotion agencies (IPAs) (K. Head & Ries, 2010). The establishment of IPAs to generate FDI is not, however, a new phenomenon. These policy initiatives have been actively pursued by both developed and emerging economies for well over 30 years (Morisset, 2003). While the sources of IPAs have traditionally been heterogeneous across global economies, target economies have overwhelmingly been developed economies, such as North America and Europe. Historically, focusing on generating FDI from developed economies made economic sense, as the vast majority of FDI flows came from developed country MNEs.

The rise of emerging market (EM) MNEs has fundamentally altered this one-way stream of FDI from developed economies to the rest of the world (Sauvant, Maschek, & McAllister, 2010). FDI from emerging markets now makes up an increasingly large share of global FDI flows. As of 2012, for example, EM firms constituted around 25% of all outward FDI flows globally (Contractor, 2013; UNCTAD, 2013). China, for example, now invests heavily outside its borders to ensure such things as natural resource security (Zweig & Bi, 2005). The increasing importance of emerging markets as a source of FDI has not gone unnoticed and policy-makers in both developed and developing economies have looked to attract their share of these investments. Today, for example, the majority of IPAs representing the

Canadian province of British Columbia are located in *emerging markets*, not developed markets. In fact, British Columbia has more offices in China than in any other target economy. The emergence of EM firms as important sources of FDI has created an aggregated focal shift in IPA policy strategy in some cases, and a simple expansion of the scope of IPAs to target developing economies in other cases.

Why might IPAs be a useful policy-tool? IPAs may lower the transaction cost of investing in a particular location through the dissemination of information and services that may not otherwise be readily accessible to foreign firms. IPAs may be effective in lowering a foreign firm's entry costs, particularly with regards to the 'liability of foreignness' (LOF) in the host economy. LOF deals primarily with the fact that, 'multinational enterprises (MNEs) doing business abroad face costs (Hymer, 1976; Kindleberger, 1969) arising from the unfamiliarity of the environment, from cultural, political, and economic differences, and from the need for coordination across geographic distances' (Zaheer, 1995, p. 341). It is argued LOF presents barriers to entry for foreign firms and that the psychic distances (i.e. environmental, cultural, political, and economic differences) between two developed economies (such as Canada and Germany) are less than those between developed and developing economies (such as Canada and China) (Ronen & Shenkar, 2013). In this light, it is interesting to consider whether IPAs are now becoming more important facilitators of FDI flows, given the potentially greater psychic distances encountered in attracting investment flows from emerging to developed markets. It is perhaps not a coincidence that many IPAs have been established with the aim of targeting psychically distant emerging market firms, those with high levels of LOF. This expansion in scope, however, represents new challenges for developed economy IPAs, as they must look to effectively mitigate LOF and entice EM MNEs to undertake FDI in markets with which they are not familiar.

The academic literature on IPAs is limited. Several studies have analysed IPAs, in particular looking at the impact of IPAs on the generation of inward FDI to the region where the IPA is located (Bobonis & Shatz, 2007; Coughlin & Segev, 2000a; C. K. Head, Ries, & Swenson, 1999; Lim, 2008; Morisset, 2003; Wilkinson & Brouthers, 2000; Woodward, 1992). However, many of these studies are now dated. Moreover, as far as we are aware, the impact of IPAs on the investment behaviour of EM FDI has not been studied. This is a potentially interesting question, not only for policy related reasons (i.e. how do we

formulate policies to attract EM MNEs?), but also because there are some interesting conceptual issues to explore. It is widely conjectured that EM MNEs may actually be different to developed market MNEs (Cuervo-Cazurra, 2012; Hennart, 2012; Narula, 2012; Ramamurti, 2012). While this question is far from resolved, if such things as EM domestic market institutions (i.e. home country-specific advantages) lead to idiosyncratic investment behaviours in EM MNEs (via, for example, their impact on firm-specific advantages), it is far from clear that the findings of the aforementioned IPA studies will apply to EM MNEs. There may also be EM MNE specific factors which influence the success or failure of IPAs. For example, a recently developed strand of literature suggests EM MNEs particularly seek strategic assets in developed markets (Luo & Tung, 2007; Mathews, 2006). If this is correct, perhaps developed market IPAs need to adjust their strategies accordingly. Such questions regarding the role of IPAs remain under researched. By exploring IPAs of developed market origin working in emerging markets we may also be able to shed further light on the salient features of EM MNEs and the related conceptual discussions.

The primary question this study asks is, therefore, whether developed economy IPAs aid in the generation of FDI from EMs. We model FDI from a specific developing economy (China) to a specific developed market (Canada) using data from 2003-2013. More specifically, we evaluate Chinese FDI into Canadian provinces to explore how provincial-level IPAs impact the location decision of Chinese MNEs. Our empirical modelling draws primarily from constructs developed in mainstream International Business literature, including LOF and psychic distance, which predicts the propensity to invest in a location, ceteris paribus, may decrease with increased levels of psychic distance (Lim, 2008). Interestingly, we find that the presence of IPAs significantly increases the propensity for a Chinese firm to locate in a given province, giving some credence to the idea that IPAs may be an effective means of attracting EM MNE FDI to developed markets.

This paper proceeds as follows. First, we provide a literature review from which we develop our hypotheses. The data and methodology are then described, followed by the discussion of results, policy implications and conclusions.

2. Literature review and hypothesis development

2.1 Investment promotion agencies and FDI generation

IPAs are often governmental organizations, funded by regional or national government agencies to promote inward investment. The impact of IPAs in generating FDI has been studied for over 25 years. The seminal work of Wells and Wint (1990) was among the first to question the effectiveness of IPAs in generating inward FDI. They determined IPAs offer benefits to countries in much the same way marketing campaigns benefit for-profit organizations. In an updated version of this work, Wells and Wint (2001) define IPAs rather broadly, as 'activities that disseminate information about, or attempt to create an image of the investment site and provide investment services for the prospective investors' (p. 4) (we also adopt this definition). They go on to identify four main functions of the IPA: image building, investor facilitation, investment generation and policy advocacy.

The task of image building is to create the perception of a given market as an attractive location for FDI at the national or sub-national level (Lim, 2008). An example of this would be Ontario, Canada's IPA branding its province as the financial centre of Canada. Ontario's IPAs, for example, prominently showcase the majority of banks in Canada being headquartered in Ontario, as well as having the largest stock market in Canada and a large number of finance professionals. Through branding itself as the premier Canadian location for financial investment, it hopes to gain the majority of foreign investment in this niche area.

Advising on, and sometimes expediting, approval processes, facilitating the purchase or lease of physical sites, setting up utilities accounts and the like all encompass the facilitator role IPAs play. According to Morisset (2003), '*Investor facilitation* and *investor services* refer to the range of services provided in a host country that can assist an investor in analysing investment decisions, establishing a business, and maintaining it in good standing' (p. 7). Canadian IPAs, for example, attempt to make applying for and obtaining business licenses a transparent process at both the provincial and national level. IPAs also provide highly specific services to help navigate complex rules, regulations and expectations of, for example, natural resource extraction FDI. More specifically, IPAs may give examples from

past investments on how 'net socio-economic benefit' to the host country was derived. This will generally help investing organizations assess the potential value of the intended investment, as well as increase the chances of the investment being approved.

IPAs play an important on-the-ground role in nurturing positive relationships between target firms and their respective governmental counterparts. A further refinement to investment facilitation is, therefore, the role IPAs take in match-making and logistical support of high-level government-to-government relationships. Positive ambassadorial-level diplomatic ties have, for example, been found to facilitate increased levels of trade (Ciuriak, 2014). Regarding Chinese outward FDI, Zhang, Jiang and Zhou (2014) recently found 'bilateral senior visits improve the awareness of, or foster the positive sentiment toward, the investing country, creating a more friendly investment environment for foreign companies to overcome the liabilities of foreignness' (p. 219). In many cases, IPAs act as an important facilitator of provincial trade missions headed by provincial premiers. British Columbia's Premier, Christy Clark, for example, led a trade mission to China in November 2013 with intentions to 'advance liquefied natural gas (LGN) development opportunities and promote the province as a stable and attractive destination for trade and investment' (British Columbia, 2013, p. 1). Premier Clark's investment promotion activities in China were facilitated by British Columbia's IPAs (British Columbia, 2013). Relatedly, IPAs also attempt to enhance export opportunities for home province businesses. This is done through creating linkages between host economy governmental actors or businesses and home province businesses.

IPAs also engage in direct marketing campaigns. Such pointed investment generation initiatives generally include targeting specific companies or industries and subsequently mailing investment information, sending emails, attending trade shows, hosting forums and seminars, and otherwise increasing the visibility of investment opportunities to a targeted group of organizations (Wells & Wint, 1990). Provincial Canadian IPA employees attending the China Mining Conference and Exhibition coordinated by the Tianjin Municipal Government and China Mining Association is an example of investment generation marketing initiatives.

The final major function of IPAs is policy advocacy. According to Morisset (2003), policy advocacy consists of 'the activities through which the agency supports initiatives to improve

the quality of the investment climate and identifies the views of the private sector on that matter. Activities include surveys of the private sector, participation in task forces, policy and legal procedures, and lobbying' (p. 7). In this way, IPAs are tasked with listening to what potential investors would like to change in the investment environment which the IPA represents. IPAs then actively engage with policy makers to facilitate those changes. An example of this bottom-up approach might be a request to raise the minimum investment values which are subject to review under the Investment Canada Act of 1985. As of 2015, WTO members wishing to acquire a business in Canada for more than $369 million must undergo review to assess whether the investment is of 'net benefit' to Canada (Industry Canada, 2015). If there is significant pushback to raise this investment threshold by potential investors, the IPA may attempt to lobby the national-level government for change.

While there are four main functions of IPAs which are commonly discussed in the literature, the primary overarching objective of foreign investment promotion agencies is to generate FDI (Wells & Wint, 1990). This goal is facilitated through the dissemination of information which may otherwise be an impediment to investment owing to a lack of nuanced understanding of potential host economies' cultural, political and economic environmental differences (Lim, 2008). Morisset (2003) echoes this view, '[investment] promotion agencies are viewed as vehicles for addressing coordination and information issues' (p. 7). In other words, one of the main objectives of IPAs is to mitigate the liabilities of foreignness caused by, among other things, information asymmetries and differences in culture and business practices.

2.2 Overcoming liabilities of foreignness

Zaheer (1995) defines LOF as, 'all additional costs a firm operating in a market overseas incurs that a local firm would not incur' (p. 343). He goes on to categorize these costs based on other similarities, such as unfamiliarity with the local environment and lack of legitimacy in the host economy. A key thread throughout the extensive LOF literature set is that LOF raises the cost of conducting investment in a qualitatively dissimilar economy. Further, there is a positive relationship between cost and psychic distance of the home and host economies (Ellis, 2008). Morisset (2003), for example, concludes, 'the finding that

promotion is positively associated with FDI inflows across countries has to be qualified because it is closely linked to the environment in which the agency operates' (p. 18). Determining the psychic distance between two economies, however, is not a straight forward calculation. Rather, it is a multifaceted interpretation of macro-level socio-economic factors such as language, religion and level of economic and institutional development (Blomkvist & Drogendijk, 2013).

There have been several attempts to analyse the impact of IPAs. While a few of these studies find IPAs have a positive and significant impact on the generation of FDI (Bobonis & Shatz, 2007; Lim, 2008; Morisset, 2003; Wells & Wint, 1990; Woodward, 1992), the majority of studies find IPAs do not have a significant impact on the location choice of FDI (Coughlin & Segev, 2000b; C. K. Head et al., 1999; K. Head & Ries, 2010; Kotabe, 1993; Martin, 2003; Wilkinson & Brouthers, 2000; Wint & Williams, 2002). Until very recently, however, the vast majority of IPAs focused on generating FDI were located in developed economies, generally in nations that possessed large pools of globally competitive firms. IPAs, moreover, regardless of the home country's economic development (i.e. both developed and developing countries) also generally targeted developed economies as sources of FDI. As Wilkinson & Brouthers, (2000) observe, 'the pattern of trade offices in many respects follows the world pattern of trade, with the overwhelming majority of trade offices located in either developed nations or newly industrialized nations of the Pacific Rim' (p. 231). Yet, as noted, it has been hypothesised that EM MNEs may be different to MNEs of developed market origin (Cuervo-Cazurra, 2012). As such, the generally insignificant relationship found between inward FDI and IPAs may not hold in the case for EM MNEs today.

Traditionally, developed economies pursue inward FDI to further build competencies and competition as well as generate employment. Developing economies actively seek to attract FDI in order to spur knowledge spill-overs in production techniques, product innovation and managerial knowhow as well as provide adequate employment opportunities for its citizens. Therefore, while the individual importance of each initiative may vary according to development level, the overall goals have been largely similar (i.e. further development). Historically, the most promising avenues for attaining these FDI goals were found predominately in developed economy firms (Wilkinson & Brouthers, 2000).

For developed economy IPAs, this constituted a decided advantage in alleviating the additional costs of international investment due to lower levels of LOF. This is seen to be true as the level of economic development is a major factor in determining psychic distance and, in turn, the extra transaction costs involved in international expansion. Blomkvist & Drogendijk (2012) note, 'the importance of differences in the degree of industrialization…will affect the intensity of the activities of the firms in a foreign market' (p. 667). Firms from economies such as the United Kingdom, for example, will have comparatively lower levels of LOF, and in turn transaction costs, when entering psychically near Canada compared to firms from psychically distant China. In a recent review of the EM literature, Contractor (2013) comes to much the same conclusion:

> EMMs [EM MNEs] suffer not only from the LOF (Eden and Miller, 2004; Zaheer, 1995) that all internationally expanding firms face, but do so to a greater degree. This is because EMMs have only recently internationalized, and because EMMs operating in advanced nation markets face larger institutional and cultural distance, than in the traditional patterns of FDI flows when a multinational from one developed nation invested in another developed country
>
> (Contractor, 2013, p. 321)

One important reason for high levels of psychic distance are differences in home institutional environments from which EM MNEs and developed economy firms expand (Cuervo-Cazurra & Genc, 2008; Cuervo-Cazurra, 2012; Hennart, 2012; Ramamurti, 2012). Contractor (2013) comments, 'institutions are less-developed in emerging nations, so that their firms face an environment of "institutional voids" (Khanna and Palepu, 2006). Hence successful ventures by EMMs abroad – and particularly EMM expansion into advanced nations – would seem fraught with obstacles' (p. 316). Contractor (2013) goes on to argue that 'institutional voids' between EM and developed economies can be seen as a decided advantage for EM MNEs expanding into other emerging markets. Others (Cuervo-Cazurra & Genc, 2008; Guillen & Carcia-Canal, 2009; Khanna & Palepu, 2010; Ramamurti, 2012) echo this view citing EM MNEs enhanced ability to cope with the inefficient capital markets, poor enforcement of local and international laws, capricious bureaucrats and erratic regulations which typify EM institutional environments. The ability of EM MNEs to operate effectively in emerging market economies other than their own does not, however, translate into the

ability to operate in markets with highly developed institutions. The findings in this strand of research complement LOF theories. Institutional voids increase the transaction costs of expanding from an EM to a developed economy primarily due to increased levels of information asymmetries. Moreover, it is generally considered that the motivations for EM MNE FDI, particularly that to developed markets, is strongly motivated by the aggressive seeking of intangible strategic assets which are used to build up competitive advantages (Mathews, 2006). In other words, some of the motivation for FDI may also be somewhat different, as EM MNEs themselves may also be dissimilar to developed market MNEs (Luo & Tung, 2007; Mathews, 2006). In this case, IPAs may help EM MNEs compensate for the dearth of operating experience in developed economies.

Due to the large gap in psychic distance between EM firms and developed economies, the value derived from the services provided by developed economy IPAs located in emerging markets, rather than other developed economies, may be valuable. If, for example, a developed economy IPA is able to bridge information asymmetries and subsequently lower transaction costs associated with LOF, the propensity for EM MNEs to invest in that economy may be increased. The key research question we address, therefore, is whether the presence of a developed economy IPA located in an EM increases the likelihood that an EM firm will invest in a given developed market location.

3. Data and methodology

3.1 Data

We analyse Chinese FDI into Canadian provinces. This is done for four main reasons. First, EM MNEs from countries such as China often engage in natural resource seeking behaviour (Zweig & Bi, 2005), especially in large natural resource rich countries such as Canada. As such, natural resource rich countries are likely to be important host countries for EM MNEs. The majority of Chinese FDI into Canada, for example, is in the natural resource extraction sector. In terms of value of Chinese FDI in Canada, mining represents 97% of all investment from 2003-2013. Regarding the number of investments (frequency count) mining represents 64% of all investment. Tables 1 and 2 break down Chinese investments in Canada

by industrial sector. On the surface, this could be problematic as Chinese firms may simply be investing in provinces with large natural resource reserves. Upon closer investigation of detailed provincial-level data, however, it was found that Canada is a large natural resource-rich country with a substantial and *pervasive* natural resource endowment found in almost every province and territory. Newfoundland and Labrador, for example, is geographically the 10th largest province (including territories) in Canada, but in our period of study (2003-2013) it registered the highest natural resource exports per square kilometre. Larger provinces such as Québec (approximately the size of France, Spain and Germany combined) registered high aggregate natural resource exports, but once the size of the province was taken into account natural resource export levels were found to be slightly below the average for Canadian provinces. In other words, as long as natural resources and size (as well as other key control variables) are controlled for it should be possible to effectively tease out the efficacy of IPAs in a sub-national 'competition' for Chinese FDI in a country such as Canada. In other developed countries which are rich in natural resources, such as Australia, natural resource endowment is not nearly as evenly spread as in Canada, thus making controlling for natural resources much more difficult.

********** TABLES 1 & 2 ABOUT HERE **********

Second, host provincial and national-level governments are typically involved in large natural-resource related FDI transactions. This is primarily concerned with trust. On the one hand, the investing company has a strong interest in ensuring their investment is protected from privatization and other unfavourable future political circumstances. On the other hand, the host economy has a vested stake in ensuing the investing firm is socially responsible and provides a substantial net social, economic and environmental benefit to the host economy. Within an economy such as Canada, determining whether a natural resource extraction investment provides a net gain is highly equivocal depending on the concerned interest group (i.e. financial investment firms may evaluate 'net gain' differently than staunch environmental protection groups). Adding the complexity of high levels of psychic and institutional distance can only serve to exacerbate an already contentious issue. This is true of firms from China which are sometimes seen by outsiders to operate in a

'growth at all costs' institutional environment which may be incongruent with developed economies' long-term goals. This is especially true in the case of Chinese FDI as (natural resource) investment projects from China are dominated by state-owned firms (SOEs). In response to this consideration, in 2012 Canadian investment regulatory bodies (i.e. those under the control of the Minister of Industry) clarified its approach to investments made by SOEs in an amendment to the Invest in Canada Act which involves much higher levels of scrutiny for SOEs' investments in Canada than ever before. Appeasing host national and subnational governments, which theoretically represents all interest groups in a democratic society, therefore, is highly important for both the investing firms and the host economy. One important medium for disseminating information or acting as a catalyst for FDI discussion may be the IPA. Canada, therefore, provides an excellent arena for testing the efficacy of developed economy IPAs in generating EM FDI.

Third, IPA development policy at the sub-national level in Canada is typical of many developed economies. Historically, most provincial Canadian IPAs targeted, almost exclusively, other developed economies to generate inward FDI. The emergence of EMs as key players on the outward FDI scene, however, precipitated an expansion in the scope of most provincial IPA office portfolios to include large developing economies. Ontario for instance, currently maintains IPAs in China, France, Germany, India, Japan, Mexico, United Kingdom and United States. Ontario has more than one office in only two countries – China and United States. The number of employees in the China offices is, however, approximately 2.5 times higher than the US offices. Although Ontario currently generates higher levels of FDI from other source countries, the drastic expansion of resources in China infers it is now the most important IPA destination in the world for Ontario. The IPA policy in British Columbia has a slightly different focus with IPAs in Japan (1), South Korea (1), China (4), India (3), United States (3 – all in California), and United Kingdom (1). Within British Columbian IPAs the country with by far the most employees is China. Similarly to Ontario, this indicates China is the most important outpost for IPAs, again despite higher inward FDI flows from other source countries. Although developed economies still constitute the majority of IPA locations from Ontario and British Columbia, the increasing importance of IPAs located in EMs is unmistakable. This trend is representative of developed countries, either on a national or subnational level, in many major economies.

Finally, Chinese FDI data in Canada is comparatively reliable and detailed. Dependent variable data, as a result, are able to account for the use of tax havens and offshore financial centres as intermediaries for subsequent FDI into Canada. In this way, ultimate beneficiary ownership, as defined by the OECD's most current benchmark definition of FDI, is used (OECD, 2008). To date many studies on EM MNE outward FDI have not properly accounted for the frequent use of offshore tax havens and financial centres to channel FDI. Instead, they use official data sources, which are, unfortunately, prone to measurement problems inherent in the earlier OECD guidelines (Beugelsdijk, Hennart, Slangen, & Smeets, 2010; Kolstad & Wiig, 2012). Given tax haven jurisdictions are the major destinations as well as source countries for Chinese MNE FDI, it is in fact very important to account for their use (Kolstad & Wiig, 2012; Liu & Scott-Kennel, 2011; Rodríguez & Bustillo, 2011; Rosen & Hanemann, 2011; Sutherland & Anderson, 2014).

3.1.1 Dependent and independent variables

In this subnational-level study the dependent variable used is Chinese acquisition and greenfield investments across all thirteen Canadian provinces and territories for the time period 2003-2013. In this case, there are two main methods for regressing panel data: by value and count. Using yearly aggregated investment dollar amounts for a given year and province for the dependent variable is typically seen to represent the quality of investment. Using yearly aggregated counts of investments, on the other hand, generally represents the quantity of investments. In the case of EM FDI into a large, resource-rich economy, however, the dollar amounts of investment may be dominated by large natural resource-related investments, thus rendering smaller greenfield investment less important. Chinese company Sinopec's $2.148 billion (USD) purchase of Calgary-based Daylight Energy, for example, risks diminishing the importance of more incremental greenfield investments such as Daqo New Energy's investment in Ontario of $5.17 million (USD) in the solar power industry or Linyi Shandong Biological Product's manufacturing facility investment in Manitoba of $50 million (USD). Due to the very large monetary value natural resource investments demand, it could be argued using count models are more appropriate for this study. When using count models all investments are weighted equally, regardless of size. In light of the above conundrum, we estimate models using dependent variables for both

value and count. Value-based models utilize random effects generalized least squares models and count models use random effects negative binomial models. Independent variables are kept consistent across models.

Dependent variable data are based on commercial databases. Acquisition investments were taken from the Thomson ONE database. Greenfield investments were taken from the Financial Times fDi Markets database. Both of these databases have been used extensively in past research and are considered to be valid sources of secondary data. We follow the normal 10% ownership threshold for acquisition investments and minimum values of around $450,000 for greenfield investments. This dataset initially included 165 acquisition investments and 48 greenfield investments. Upon further scrutiny of individual investments, however, only 112 acquisition and 44 greenfield investments were included. The 53 acquisition and 4 greenfield investments were excluded due to the inability to verify the validity or value of the transaction. In total, our sample consists of 156 transactions across Canada in the time period 2003-2013. Breakdowns of both greenfield and acquisition investments across the 13 Canadian provinces and territories can be found in Tables 3 and 4.

********** TABLES 3 & 4 ABOUT HERE **********

Alberta dominated FDI flows in terms of value with British Columbia a distant second during our period of study. Regarding frequency (count) of FDI projects, however, Ontario and British Columbia registered by far the most investments with Alberta a distant third. Four provinces did not register any FDI from China during the period of study: New Brunswick, Northwest Territories, Nunavut and Prince Edward Island.

The main explanatory variable in this study is the experience and intensity of provincial IPAs in China. Provinces which had at least one IPA located in China at some point in the period of study include: Alberta, Ontario, British Columbia, Québec and Saskatchewan. This equates to just under 40% of all provinces. Individual provinces, however, first opened IPAs in China at different times and sometimes had more than one IPA in China in a given year. Thus, ideally, we would measure not only whether a province maintains an IPA in China, but

also the intensity of its efforts. Such intensity has been defined as the number of employees, operational budget, number of IPAs and years established in past studies (Lim, 2008). Each IPA and the respective home governing body for each foreign IPA was contacted in search of the above information. Only information on the number of IPAs maintained and IPA establishment years were available on a consistent basis.

In the case of generating FDI from source countries which are qualitatively dissimilar to the host economy, experience is likely to be important. Alberta, for example, opened its first IPA in China (Beijing) in 1999 while British Columbia opened its first IPA in China in 2007 (Shanghai). The experience gained by Alberta's IPA in China throughout the several years prior to British Columbia opening its first IPA in China may be of significance to understanding the relative efficacy of IPAs' ability to generate FDI. Thus, the number of years a province has maintained an IPA is important.

Measuring IPA efforts through the number of years in which a given province has maintained an IPA does not, however, consider the relative intensity of its efforts. For this reason we also incorporate the number of IPAs maintained in our main explanatory variable. We elect to measure relative IPA experience and intensity as cumulative IPA years by number of provincial offices. Using this method, each year an individual IPA office is in place is counted as one year. British Columbia, for example, did not have any IPAs in China up to 2006 so these years would be recorded as 'zero cumulative IPA years'. In 2007 British Columbia opened its first IPA so this would be recorded as 'one cumulative IPA year'. 2008 did not see any expansion or contraction in British Columbia IPAs, so it would be recorded as 'two cumulative IPA years'. 2009 saw the addition of two British Columbia IPAs so would be recorded as 'five cumulative IPA years', and so on. By using cumulative IPA years, experience *and* intensity of effort are considered in a meaningful manner.

FDI flowing from China into Canada could, of course, be motivated by factors other than IPAs. Drawing from similar previous studies we control for economic size, provincial corporate tax rate, strategic asset availability and natural resource exports. As previously mentioned, in the specific context of Canada, the sizes of provinces vary widely. Thus, geographic area (square kilometres) is also included. Furthermore, many Chinese outward FDI location choice studies also control for the geographic distance from Beijing to the host economy as well as levels of Chinese diaspora in the host economy. Finally, while not

typically controlled for in Chinese outward FDI studies, past work on the impact of state or provincial policy on generating exports and/or FDI typically includes a variable on the use of trade missions. While the overarching objective of trade missions is generally to facilitate export opportunities, the generation of FDI is typically seen as a tertiary benefit. We, therefore, also control for high-level trade missions involving provincial premiers. Dependent and independent variables were logged where appropriate as indicated in Table 5. Table 5 includes details for all dependent, main and control variables.

********** TABLE 5 ABOUT HERE **********

3.1.2 Model definition

In the case of developed economy IPAs, the measurement for efficacy is typically either the quality or quantity of generated investments. Quality is generally defined in terms of the monetary value of investments while quantity focuses on the number of investments. In order to gain a holistic view of the efficacy of IPAs from developed economies, we estimate the impact of IPAs against both the values and counts of Chinese FDI into Canadian provinces. We estimate the value of investments in our unbalanced panel data set through the use of random effects generalized least squares (GLS).

This model is estimated as:

$$(1) \quad FDI\_VALUE_{it} = f(\beta_1 IPA_{it}, \beta_2 GDP_{it}, \beta_3 TAX_{it}, \beta_4 PAT_{it}, \beta_5 NR_{it}, \beta_6 TRADE_{it}, \beta_7 CUL_{it}, \beta_8 SIZE_{it}, \beta_9 DIS_{t},)$$

Where FDI_VALUE_{it} is the value of FDI in year t (t=1,…T) in province i (i =1,…I). The correlation matrix for the aforementioned model can be found in Table 6. While multicollinearity is not a major concern in our dataset, heteroscedasticity could be an issue. After calculating the modified Wald statistic (which tests for groupwise heteroscedasticity in the residuals), the null hypothesis of homoscedasticity is rejected. According to Baltagi, Bresson and Pirotte (2005) GLS is a suitable methodology for linear data where the

variances of the dependent variable are unequal (i.e. heteroscedasticity). After running the Hausman test, it was determined random effects models are best suited to our data.

********** TABLE 6 ABOUT HERE **********

Our second estimation seeks to model the counts of Chinese investment in Canadian provinces. To do this we test Poisson and negative binomial models. Negative binomial models are typically used in place of Poisson models in cases where unobserved heterogeneity in the data exists (Cameron & Trivedi, 2013). See Hilbe (2011) for an excellent review of negative binomial methodology.

Our second model is defined as:

$$(2) \quad FDI\_COUNT_{it} = f(\beta_1 IPA_{it}, \beta_2 GDP_{it}, \beta_3 TAX_{it}, \beta_4 PAT_{it}, \beta_5 NR_{it}, \beta_6 TRADE_{it}, \beta_7 CUL_{it}, \beta_8 SIZE_{it}, \beta_9 DIS_{t},)$$

Where FDI_COUNT_{it} is the value of FDI in year t (t=1,…T) in province i (i =1,…I). After estimating models for both Poisson and negative binomial models, likelihood-ratio tests favoured the use of negative binomial models. Over-dispersion was also found to be present in the data set.

In the case of exploring the impact of IPAs on generating FDI, causality could be a major cause for concern. The argument could be made that increases in Chinese FDI in a given province are causing provincial governments to open IPAs in China rather than provincial IPAs leading to the generation of Chinese FDI into a province. The causality conundrum is not unique to this study. In fact, in a recent study Head and Ries (2010) go to great lengths to tease out potential biases related to causality when analysing the impact of Canadian trade missions on exports. As well as determining Canadian trade missions do not significantly increase trade, they also lay out several methods for effectively exploring causality issues. Unlike Head and Ries (2010) there does not seem to be a high or significant level of correlation between residuals and the IPA variable in this study. Further, tests to confirm whether or not endogeneity is an issue in our data were also performed. One such method discussed in Head and Ries (2010) which can appropriately be applied to our case is

the incorporation of lagged dependent variables. This method helps 'capture unobserved factors promoting trade between Canada and mission countries that existed prior to the missions' (K. Head & Ries, 2010, p. 765).

After lagging the dependent variables, our model estimates did not give any indication previous levels of Chinese FDI into Canada influence current FDI flows. More specifically, lagging the dependent variables one-year, two-years and three-years did not yield any improvement in model fit. Coefficients on the IPA effects did fall when using lagged dependent variables, but not significantly.

Results from the more familiar Granger-causality test provide similar results. When testing the causality of FDI flows on the presence of IPAs the null hypothesis of non-causality is confirmed. When the order of variables is reversed, however, the null hypothesis of non-causality is rejected. This suggests a unidirectional relationship (Granger, 1969).

In regards to the Granger causality test, Sanfilippo (2010) comment, 'causality tests should be cautiously considered as a source of information on the direction of causality in the absence of other variables (Greene, 2003). Rather than causality, this kind of test determines which of the two variables follows the other and, thus, "precedence" is considered a more appropriate term to describe what a Granger test effectively captures' (p. 603). Thus, it is appropriate to infer the presence of provincial IPAs proceed the location choice of Chinese FDI.

4. Results and discussion

4.1 Results

Results are presented for both GLS and negative binomial model estimations. Table 7 reports the results from the GLS model specified in equation (*1*) which uses the value of investments as the dependent variable as well as results from the negative binomial model specified in equation (*2*) which uses the number of investments (count) as the dependent variable. Both models are estimated against an identical set of main and control independent variables.

********** TABLE 7 ABOUT HERE **********

Despite geographic and industrial composition differences between models, major results are similar. Irrespective of the dependent variable used, the results indicate the presence of a Canadian provincial IPA is highly significant and positively related to the location choice of Chinese FDI. These results indicate the presence of a developed economy IPA increases the likelihood that an EM firm will invest in a given location. In both models Chinese FDI is also significantly drawn to economically large provinces. These results, which are consistent across models, indicate economically large provinces are more likely to receive FDI from China than economically small provinces, but the relative intensity of provincial IPA efforts, regardless of economic size, will increase the likelihood of generating Chinese FDI. More specifically, due to random effects negative binomial models implicitly accounting for conditional marginal effects for each variable (at the mean), we can interpret the results of our count model as: each additional 6.6 'cumulative IPA years' will, on average, generate one additional investment. The mean investment value in our sample was approximately $306 million. Interpretation of our modeling results broken down into values indicates, therefore, each additional 'cumulative IPA year' can, on average, be expected to generate approximately $46.4 million in additional investments per year due to IPA efforts.[1] While this is an average across provinces for our time period and should, therefore, be interpreted with caution, it is clear the addition of (Canadian) provincial 'cumulative IPA years' will lead to significant increases in FDI from Chinese MNEs.

When using the count of FDI projects as the dependent variable, in addition to the presence of a foreign IPA and large economic size, geographic distance is a significant factor where closer provinces are more likely to be chosen as FDI locations by Chinese firms than geographically distant provinces. According to count modelling estimations, high corporate tax rates may also draw FDI. While this is superficially counter intuitive, it simply reiterates the importance of IPAs, large economic size and geographic distance.

[1] It should be noted that the above numbers are aggregated and represent long-term averages based on investment values and counts from 2003-2013.

4.2 Discussion

Given the high psychic distance between China and Canada, finding IPAs significantly impact the location decision is, perhaps, unsurprising. One explanation is that the increased transaction costs for Chinese MNEs associated with overcoming LOF in a developed economy may have been mitigated through the bridging of information asymmetries by the IPAs. Québec, Saskatchewan and British Columbia commenced provincial representation through an IPA for the first time during the study period. The investment patterns of Chinese MNEs in Québec, Saskatchewan and British Columba pre and post IPA, therefore, provide potentially interesting subcases to explore.

According to Investissement Québec, which is the governing body for Québec's IPAs globally, Québec opened its first IPA in China in 2007. During our period of study, Québec did not receive any Chinese FDI until one year after it opened its Chinese IPA office. The investment amount of its first Chinese FDI transaction was $46,000,000. From 2009-2011, Québec succeeded in generating an additional $998,000,000 in Chinese FDI. In other words, in the first four years covered in this study Québec did not have an IPA in China and did not register any Chinese FDI. After opening an IPA in China, Chinese FDI totalled over $1 billion in just five years. The story for Saskatchewan is strikingly similar. During our period of study, Saskatchewan received a total of $1,000,000 in Chinese FDI prior to opening an IPA in China. Saskatchewan opened an IPA in China in 2010 and by 2011 had generated $261,000,000 in Chinese FDI. British Columbia opened its first IPA in China in 2007. From 2003 to the end of 2007 British Columbia generated a *total* of nine investment from China. In the first year alone after opening an IPA in China (2008) British Columbia generated nine FDI projects from China. While opening IPA offices in China may not be the sole reason for increased levels of Chinese FDI, it seems to be a positive determinant.

Why do IPAs appear to stimulate Chinese MNEs to invest in a given Canadian province when these firms have a wide choice of locations? Extant literature suggests Chinese MNEs face particular challenges when locating in institutionally developed markets such as Canada (Child & Marinova, 2014; Meyer, Ding, Li, & Zhang, 2014). In general Chinese businesses have developed within a challenging domestic institutional context, including: bureaucratic obstacles; inefficient regulatory environments; and opaque political institutions. As a result Chinese business leaders often seek out alliances with political bodies and decision makers

in their home market (Walder, 2011). Further, Chinese MNEs are typically 'infant' MNEs which are directly influenced by 'home country effects' (i.e. the influences of their country of origin on their behaviours) (Narula, 2012; Ramamurti, 2012; Zhou & Guillén, 2014). When expanding abroad, the embedded behaviour of seeking legitimacy within home country political confines naturally extends to parallel considerations in the host economy. Locally available (i.e. in China) provincial-level Canadian IPAs may be important agents for facilitating Chinese MNEs' desires for host country legitimacy. More specifically, the growth of successful Chinese businesses is in some cases built around business to government linkages and in all likelihood Chinese MNEs will look, where possible, to nurture such linkages when internationalizing (Meyer et al., 2014). IPAs may therefore play a particularly important role in lowering the LOF for nascent Chinese MNEs entering the Canadian market by helping them understand Canadian institutional and political rules, norms and values. Thus, IPAs' role in 'investment facilitation' is likely to be important to potential Chinese investors (Wells & Wint, 2001).

The investment facilitation role IPAs play is likely to be especially meaningful due to the industrial composition of our sample. Investments by Chinese MNEs into Canadian provinces are dominated by the natural resource extraction sector in both value and count measures. Natural resource extraction can be a contentious issue for both foreign and domestic companies in Canada due to complex measurements of 'net socio-economic benefit'. Chinese MNEs may be drawn to IPAs which provide specific services to help navigate complex rules, regulations and expectations of natural resource extraction FDI. More specifically, IPAs may give examples from past investments on how 'net socio-economic benefit' to the host country was derived. From the investing firms' perspectives, this may aid in assessing the value of potential investments and ultimately increase the chances of approval. The services of IPAs may be especially valuable in the case of Chinese FDI into Canada in the natural resource extraction sector as the vast majority of investment in this area are undertaken by Chinese SOEs.

Recent national-level amendments to the Invest in Canada Act which aims to increase scrutiny of investments made by foreign state-owned firms in Canada may spur prospective Chinese investors which happen to be state-owned to engage with IPAs. It is sometimes argued liabilities of foreignness are intensified and complicated by the omnipresence of

state-ownership found in many Chinese MNEs. Chinese state-owned MNEs, which dominate natural resource sectors, have been highly active in Canada. When compared to private firms, it has been argued SOEs are especially subject to the multifaceted and complex institutional considerations in developed host economies (Meyer et al., 2014). This is because state-ownership may lack legitimacy in many developed markets such as Canada due, in part, to purported threats to national security (i.e. via appropriation of such things as high-technologies and key natural resources). Further, Chinese SOEs are sometimes seen to exploit unfair competitive advantages stemming from domestic governmental support when expanding abroad (Luo, Xue, & Han, 2010). Chinese SOEs wishing to engage in FDI in developed economies are, therefore, particularly vulnerable to large LOF associated with institutional mismatches (Child & Marinova, 2014; Meyer et al., 2014). Actively engaging with provincial-level Canadian IPA representatives in China, who are fluent in Mandarin and in close geographic proximity (i.e. same Chinese city or region), may be important for addressing LOF which are particularly acute for Chinese SOEs.

A major assumption about effectiveness of IPAs is, however, that the geographical reach of an IPA is wide enough to meaningfully assist Chinese MNEs with reducing LOF. In other words, the location choice of IPAs in China may be meaningful to understanding the overall ability of IPAs to generate FDI. In light of this, we consider the relative importance of provincial-level Canadian IPA geographic locations within China. Using Chinese investing firms' headquarters data, we evaluate investment flows from Chinese provinces and municipalities (i.e. Beijing, Shanghai, Tianjin and Chongqing) into Canadian provinces. In the case of municipalities, we also include investments from adjacent provinces. If, for example, an IPA is located in Guangzhou, only investments in Guangdong (province) are included, but if an IPA is located in Beijing, Beijing municipality and Hebei (province) are included, and so forth. Using this approach we found that 61% of all Chinese investments in Canada (by count) originated in Chinese provinces or municipalities which had a provincial-level Canadian IPA at the time of the investment (see Figure 1).

********** FIGURE 1 ABOUT HERE **********

As the above figure indicates, IPAs tend to draw investment from MNEs in close geographic proximity. This finding begs further consideration of the influence of IPA location: which IPA location(s) in China are most important for generating FDI? When evaluating the specific home province or municipality of Chinese MNEs investing into Canadian provinces which maintained an IPA at the time of investment, we find that Beijing is by far the 'most important' location in which to locate, commanding a full 90% of such investments. While this result is not particularly surprising due to our sample being dominated by Chinese SOEs in the natural resource sector, which typically maintain headquarters in Beijing, it is nevertheless clear that the location of IPAs in China matters.

In summary, of the four main functions IPAs serve (investor facilitation, image building, investment generation and policy advocacy (Wells & Wint, 2001)) we argue their role in investor facilitation is likely to be particularly important owing to the large LOF that exist between the Chinese and Canadian institutional contexts (Child & Marinova, 2014; Meyer et al., 2014). Moreover, there has recently been some suggestion that since the Chinese state-owned oil giant CNOOC purchased Alberta-based Nexen Energy ULC in late 2012 for a Chinese record outward FDI sum of $15.1 billion, IPAs role in policy advocacy may be increasing. This deal was approved by the national government but it stirred a strong political backlash (i.e. the idea Canada is not for sale to foreign governments (Vanderkippe, 2014)). As an indirect consequence of this deal, future investments involving state-owned enterprises will come under far greater regulatory scrutiny at the national level. Alberta has subsequently seen a steep decline in Chinese FDI. As a result, Alberta's senior IPA representative to the Asia-Pacific Basin, who has been engaged in discussion with business leaders in Beijing, has actively lobbied the national government for change. This is a prime example of the growing importance of the policy advocacy role undertaken by provincial-level Canadian IPAs in China.

5. Conclusion

5.1 Conclusion

The objective of this paper was to empirically explore the efficacy of developed economy IPAs in generating FDI from emerging markets, such as China. Findings indicate developed

economy IPAs located in emerging markets improve the likelihood of generating EM FDI. We propose this is due to the desire to mitigate the significant transaction costs associated with LOF when entering a psychically distant economy.

The first major contribution to the literature, therefore, is to shed light on the debate of the efficacy of IPA offices. In the relatively limited IPA literature set the findings are inconclusive. Some previous studies find IPAs are a significant driver of FDI generation (Bobonis & Shatz, 2007; Lim, 2008; Morisset, 2003; Wells & Wint, 1990; Woodward, 1992), but the majority of past studies do not find IPAs have an impact on the location choice of FDI (Coughlin & Segev, 2000b; C. K. Head et al., 1999; K. Head & Ries, 2010; Kotabe, 1993; Martin, 2003; Wilkinson & Brouthers, 2000; Wint & Williams, 2002). Past studies, however, have primarily been undertaken from the perspective of developed economies pursuing FDI from other developed economies. In no case has the impact of IPAs been investigated with the focus of attracting EM FDI into a developed economy. The rising importance of emerging markets as significant sources of FDI, therefore, has been completely overlooked in the extant literature to date.

The second major contribution explores the potential differences in targeting EM MNEs rather than developed economy firms. We argue when investing in a developed economy, EM MNEs are qualitatively different from developed economy MNEs. This is due to the large psychic distances between EMs and developed economies. Psychic distance in this case is described as the macro-level socio-economic factors such as language, religion and level of economic and institutional development (Blomkvist & Drogendijk, 2013). These high levels of psychic distance create substantial LOF, which, in turn, increases the transaction costs of EM firms investing in developed economies. The goal of IPAs, however, is to alleviate LOF through the effective bridging of information asymmetries and subsequently generate investment. When developed economy IPAs target EM FDI rather than other developed economy FDI alleviating LOF becomes a much more formidable task due to high degrees of psychic distance. Developed economy IPAs which are up to the challenge, however, will reap rewards.

5.2 Managerial Relevance

Our research suggests the services of IPAs are useful for Chinese managers looking to invest in developed markets. Similarly, from the perspective of managers or owners of businesses in developed market host countries, maintaining good links with domestic IPAs may be beneficial for those businesses looking to attract foreign investors. Creating IPAs in emerging markets such as China may also be a wise policy option for developed market governments looking to attract inward FDI. Such markets are becoming far more important contributors to global FDI flows and this trend is likely to continue. The case of Canada suggests their effectiveness may be particularly strong in the case of natural resource driven FDI, such as metals and mining, as well as other politically sensitive projects.

5.3 Further research

There are several areas within the IPA literature set which are ripe for analysis. Future research could, for example, look to include EM MNEs from other regions so as to expand the sample size and confirm the generalizability of our results. It could also attempt to compare IPAs from different developed markets (such as Canadian provincial IPAs with those of IPAs from US states in China) to see if they are equally successful in attracting Chinese (or other EM MNE) FDI. By comparing a greater number of provinces/states with IPAs in emerging markets, it may be possible to corroborate our finding that sub-national government IPAs independently (i.e. irrespective of sheer economic size) attract FDI from emerging markets. A study which is able to analyse the impact of IPAs in generating FDI from sectors which require high levels of government involvement may also be a productive focus. In particular, analysing the role and impact of IPAs, or lack thereof, in high technology acquisitions, which are sometimes politically sensitive (such as Chinese firm Huawei's failed attempt to acquire American firm 3Leaf) could yield interesting results. It could also be interesting to investigate in further detail how the location of the IPA in China affects its ability to generate Chinese FDI. Again, this could potentially be investigated using an enlarged sample of countries. Firm-level qualitative or mixed-method studies involving interviews with managers of Chinese MNEs investing in developed markets may also aid in understanding which IPA initiatives are most efficacious and ultimately stimulate firms to undertake FDI in a given location. Finally, investigating the impact of national-level inward

FDI policy on IPAs effectiveness may produce interesting results. Did, for example, the 2012 national-level amendments to the Invest in Canada Act which aims to increase scrutiny of investments made by foreign state-owned firms in Canada increase or deteriorate the relevance of IPAs? Clearly, there are many avenues worth pursuing in this under-researched area.

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Tables and figures

Table 1: Sectoral distribution of Chinese FDI in Canada by number of transactions from 2003-2013

Sector	Count	Percentage
Metals & Mining	81	52.29%
Oil & Gas	18	11.54%
Telecommunications	12	7.69%
Financials	12	7.69%
Industrials	9	5.77%
High Technology	6	3.85%
Consumer Products and Services	5	3.21%
Professional Services	5	3.21%
Healthcare	3	1.92%
Consumer Staples	3	1.92%
Retail	2	1.28%

Source: Thomson ONE and FT fDi Markets

Table 2: Sectoral distribution of Chinese FDI in Canada by value (millions) of transactions from 2003-2013

Sector	Value (millions)	Percentage
Oil & Gas	$37275.58	78.02%
Metals & Mining	9092.93	19.03%
Industrials	400.67	0.84%
High Technology	299.68	0.63%
Financials	282.74	0.59%
Telecommunications	271.83	0.57%
Consumer Products and Services	68.60	0.14%
Retail	31.41	0.07%
Professional Services	31.20	0.07%
Healthcare	13.75	0.03%
Consumer Staples	11.34	0.02%

Source: Thomson ONE and FT fDi Markets

Table 3: Distribution of Chinese FDI in Canada by value Millions of transactions from 2003-2013

Province	GF Value	Acq Value	**Total Value**
Alberta	347,300,000	34,288,139,000	**34,635,439,000**
British Columbia	268,350,000	8,939,601,000	**9,207,951,000**
Manitoba	62,000,000	18,981,000	**80,981,000**
New Brunswick	-	-	**-**
Newfoundland	-	69,082,000	**69,082,000**
Northwest Territories	-	-	**-**
Nova Scotia	-	8,242,000	**8,242,000**
Nunavut	-	-	**-**
Ontario	733,770,000	1,633,228,000	**2,366,998,000**
Prince Edward Island	-	-	**-**
Québec	877,010,000	211,607,000	**1,088,617,000**
Saskatchewan	3,100,000	262,293,000	**265,393,000**
Yukon	-	57,067,000	**57,067,000**
Total	**$2,291,530,000**	**$45,488,240,000**	**$47,779,770,000**

Source: Thomson ONE and FT fDi Markets

Table 4: Distribution of Chinese FDI in Canada by number (count) of transactions from 2003-2013

Province	GF Count	Acq Count	**Total Count**
Alberta	4	21	**25**
British Columbia	11	41	**52**
Manitoba	2	1	**3**
New Brunswick	-	-	**-**
Newfoundland	-	3	**3**
Northwest Territories	-	-	**-**
Nova Scotia	-	1	**1**
Nunavut	-	-	**-**
Ontario	20	35	**55**
Prince Edward Island	-	-	**-**
Québec	6	6	**12**
Saskatchewan	1	3	**4**
Yukon	-	1	**1**
Total	**44**	**112**	**156**

Source: Thomson ONE and FT fDi Markets

Table 5: Variable explanations, data sources, and expected signs

Variable	Variable Abbreviation	Proxy	Main or Control Variable	Data Source
Chinese FDI in Canada	FDI_VALUE	Value of Chinese FDI projects in host province (log)	Dependent	Thomson ONE; FT fDi Markets
Chinese FDI in Canada	FDI_COUNT	Frequency count of Chinese FDI projects in host province	Dependent	Thomson ONE; FT fDi Markets
Provincial IPAs	IPA	Cumulative IPA years by number of provincial offices in China	Main	Contact with provincial governments and IPAs
Market Size	GDP	Provincial gross domestic product (log)	Control	Statistics Canada
Taxation	TAX	Province corporate tax rate (highest marginal tax rate)	Control	Canada Revenue Agency
Strategic Assets	PAT	Canadian (federal) patents per capita (log)	Control	Canada Intellectual Property Office
Natural Resources	NR	Natural resource exports as a proportion of total exports	Control	Statistics Canada
Trade Mission	TRADE	Dummy variable where 1 = the provincial Premier led a trade mission to China	Control	Media reports; contact with provincial governments and IPAs

Cultural Proximity	CUL	Dummy variable where 1 = provincial ethnic Chinese population is more than 1% of total provincial population, 0 otherwise	Control	Statistics Canada (2006 Census)
Geographic Size	SIZE	Geographic size (scaled square kilometres) of provincial land excluding fresh water (log)	Control	Statistics Canada
Distance	DIS	Geographic distance from Beijing to the capital of the host province (log)	Control	www.geobytes.com

Table 6: Correlation matrix

	IPA	GDP	TAX	PAT	NR	TRADE	CUL	SIZE	DIS
IPA	1.0000								
GDP	0.5530	1.0000							
TAX	-0.3273	-0.3016	1.0000						
PAT	0.1238	0.5925	-0.0518	1.0000					
NR	0.0419	-0.1430	-0.0592	-0.0920	1.0000				
TRADE	0.3947	0.2456	-0.0703	0.1222	-0.0432	1.0000			
CUL	0.3659	0.4364	-0.1935	0.1106	-0.2553	0.2176	1.0000		
SIZE	0.2240	0.2289	-0.3577	-0.2535	0.3171	0.0015	0.0526	1.0000	
DIS	0.0216	0.4563	0.0425	0.5850	-0.5276	0.1106	-0.0895	-0.4580	1

Table 7: Generalized least squares and negative binomial model estimations

2003-2011	FDI VALUE MODEL	FDI COUNT MODEL
IPA	.4412702 ***	.1516815 ***
	(.0810617)	(.0345926)
GDP	.7175869 **	.7916014 ***
	(.3102149)	(.2685447)
TAX	.1199982	.160224 *
	(.1177924)	(.093944)
PAT	.1407505	1.528333
	(.1862164)	(.9489446)
NR	-.812204	-.1110616
	(1.133728)	(1.126642)
TRADE	.0189391	-.1162644
	(.6461284)	(.3087032)
CUL	.1741278	.3934003
	(.8282403)	(1.264243)
SIZE	.1447343	1.101292
	(.6043396)	(.8901645)
DIS	-15.26542	-12.00536 **
	(10.49507)	(5.49703)
CONSTANT	42.08184	11.36071
	(39.73176)	(23.57624)
NUMBER OF OBSERVATIONS	143	143
Adjusted R^2	.2032	
LLH		-117.55211
AIC		1.9002686

Coefficients reported with robust standard errors in parentheses. LLH = Log Likelihood. AIC = Akaike Information Criterion. Asterisks ***, **, * denote 1%, 5% and 10% significance levels, respectively.

FIGURE 1: NUMBER OF FDI PROJECTS WHICH FLOWED FROM A CHINESE LOCATION WITH A CANADIAN PROVINCIAL IPA TO THE IPA'S HOME PROVINCE